

JAN 17 1950

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DEPARTMENT OF STATE

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CHINESE EMBASSY

WASHINGTON

1950 JAN

PM 12:52

12:52 DEPARTMENT OF STATE A/CDC/MR

JANUARY 3, 1950

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Dear Mr. Secretary:

With reference to my letter ^{RELEASE DENIED} December 23, 1949, embodying a Memorandum on the M-RA of the Chinese Government in Formosa for certain technical and material assistance, I beg to enclose for your reference two supplementary Memoranda, one on economic aid and the other on technical military aid needed to help strengthen the defense of the island. Although I understood from Assistant Secretary of State Mr. W. Walton Butterworth, in my talk with him on December 23 last, that the State Department had already received a copy of the Economic Aid Memorandum from Formosa, I am enclosing the said Memorandum to facilitate reference and complete the record.

If there is any further information you would like to have in considering my Government's request for technical and material aid to promote the security of Formosa and Hainan from invasion, please advise me and it will be my agreeable duty to send it to you.

Yours respectfully,

V K Wellington Koo

This document released to
public per R. Oakley EA

Enclosures: O.K.T.

2 Memoranda on:

- (1) Economic aid;
(2) Technical military aid.

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14
The Honorable Dean Acheson
Secretary of State
Washington, D.C.

DEPARTMENT OF STATE
SECTOR
MUTUAL DEFENSE ASSISTANCE

MAR 29 1950

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F770009-0007

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SUPPLEMENTARY MEMORANDUM

QA

TECHNICAL MILITARY AID TO TAIWAN (FORMOSA)

0315587030

F770009-0008 .

SUPPLEMENTARY REQUISITION OF TECHNICAL EQUIPMENT
TO TAIWAN (FORMOSA)

The effective defense of the island of Formosa from invasion is of vital importance not only to the continuance of the Chinese struggle against Communist domination but also to the general cause of freedom in Southeast Asia and the Western Pacific. The requirements hereinafter proposed are of an urgent character and reduced to the minimum amount of \$26,000,000 for the next six months. This sum is to be distributed as per the accompanying schedule.

0315387030

DISCLOSURE

1. Weapons and ammunition for Army to equip six (6) Chinese Divisions US: 15,000,000

Weapons, mostly small arms and mortars \$5,000,000

Ammunition, mostly rifle cartridges and mortar shells 10,000,000

2. Army signal equipment, including about 20 Radar Field Stations for coastal monitoring; also spare parts for tanks 3,000,000

3. Military materials for Navy 3,000,000

Weapons and ammunition 900,000

Ship outfittings and accessories 300,000

Petroleum products 450,000

Ship engine spare parts 400,000

Communication equipment 300,000

Mine-laying equipment and mines 650,000

In addition, about 16 naval craft of categories suitable for patrol duties

4. Military materials for Air Force 4,000,000

Aircraft parts and accessories 1,222,000

Aircraft engine assemblies 660,000

Aircraft armament 142,000

Ammunition 1,976,000

5. Salary of U.S. personnel, including economic and political experts to assist the provincial authorities of Formosa 1,000,000

TOTAL US: 26,000,000

DISCLOSURE

F770009-0010

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SUPPLEMENTARY MEMORANDUM

ON

ECONOMIC AID TO TAIWAN (FORMOSA)

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SUPPLEMENTARY MEMORANDUM ON ECONOMIC AID TO TAIWAN(FORMOSA)

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1. General Outlook.

The importance of Taiwan as the bulwark against communistic expansion in China and in the Far East is generally acknowledged. Success in the defense of the island can be reasonably assured if her economy can be stabilized. In spite of severe damages during the late war and disturbing influences from adverse circumstances on the mainland, her steady recuperation during the last four years shows her potentialities which, with additional external aid, can prevent impending economic deterioration under the menace of war and ensure a democratic way of living in sharp contrast to the oppressive life on the Communistic mainland, thereby fostering among the masses of China a hope and a desire to regain freedom.

2. Nature of American Economic Aid Desired.

The nature of American economic aid desired may be in any one or all of the following forms:

- a. Commodities
- b. Industrial Rehabilitation and Improvement
- c. Agricultural Improvement
- d. Monetary Stabilization

Any aid will contribute to the stabilization and the strengthening of the Island economy.

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The Agricultural Aid Programme will be prepared by J.C.R.R. in collaboration with the Department of Agriculture and Forestry and the Water Conservancy Bureau. The monetary stabilization measures may be devised in collaboration with American financial experts should ECA indicate its willingness of including such in the Economic Aid Programme. The following estimates will indicate the general requirements in the first two categories of economic aid, detailed project analyses to be submitted later when needed.

3. Commodities Programme (including raw materials for industries):
(With priorities shown in sequence).

A. Up to February 15, 1950:-

a. Fertilizers -- already provided for, but 6,000 tons expected to be made up		
b. Cotton -- Present stocks sufficient to meet requirements.		
c. Crude oil	25,000 tons @ \$18	US\$450,000
d. Diesel oil	7,500 tons @ \$30	225,000
e. Wheat	5,000 tons @ \$100	500,000
f. Copra and tallow for soap	750 tons	300,000
g. Kraft pulp	1,000 tons @ \$120	120,000
h. Gypsum for cement	2,250 tons @ \$15	33,750
i. Wool	150,000 lbs @ \$1	150,000

Total US\$1,778,750

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B. For one year from February 15, 1950:-

a. Fertilizers	206,000 tons @ \$70	US\$14,420,000
b. Phosphate rocks	17,000 " @ \$21	374,000
c. Pyrites	11,000 " " @ \$21	231,000
d. Cotton	30,000 bales @ \$80	2,400,000
e. Crude Oil	99,000 tons @ \$18	1,782,000
f. Diesel Oil	30,000 " " @ \$30	900,000
g. Timber		

(20,000,000 b.m.ft. @ 11 ct.

for Housing;)

(15,000,000 b.m.ft. @ 12 ct.

for Godowns;)

(80 forest lookout towers @ \$5000)

4,400,000

h. Wheat	30,000 tons @ \$100	3,000,000
i. Copra and tallow for soap	3,000 " " "	1,200,000
j. Kraft Pulp	4,200 " " @ \$120	525,000
k. Gypsum for cement	9,000 " " @ \$15	135,000
l. Bauxite for aluminium	20,000 " "	470,000
m. Wool	1,500,000 lbs. @ \$1	1,500,000

TOTAL US\$31,337,000

The foregoing items are based on requirements in Taiwan, excluding quantities which can be produced locally or have been already ordered.

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4. Industrial Rehabilitation and Improvement Programme:

(With priorities shown in sequence)

The following items include the purchase of equipment, replacement articles and spare parts for various industries in Taiwan. For the general supervision of the engineering projects the services of J.G. White Corporation are solicited.

a. Railways:

	US Dollars	Local Currency Equiv. in US\$
Replacement and rehabilitation (according to pre-project report)	2,540,000	2,901,010
Locomotives 20 @ \$80,000	1,600,000	- - -
Passenger cars 100 @ \$30,000	3,000,000	- - -
Steel rails (75 lbs. or old 85 lbs.)		
- - - 3,000 @ \$100	300,000	- - -
Cross Ties 580,000 @ \$3.05	1,769,000	- - -
Cross Ties (for sugar railways)		
- - - 400,000 @ \$1.60	640,000	- - -
Cresoting Plant for ties	200,000	50,000
Sub-total	10,550,000	2,951,010

b. Highways:

Bridges (steel 980 tons to be imported)	97,000	3,133,000
Trucks 300 chassis @ \$2,500	750,000	180,000
Sub-total	847,000	3,313,000

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j. Machine Shops

	US Dollars	Local Currency Equiv. in US\$
Machinery and equipment	500,000	200,000
Total	US\$21,921,498	\$11,037,501

(Items without specified local currency expenditure can be installed with funds from ordinary budget.)

Out of the above, the following most urgently needed items are to be supplied before February 15, 1950:-

a. Railways:

Replacement and rehabilitation (part)	US\$ 1,000,000
Cross ties 300,000 pcs. @ \$3.05	915,000
Creosoting Plant	200,000

b. Highway:

Bridge steel 980 tons	97,000
Trucks 100 chassis @ \$2,500	250,000

c. Power:

Replacement and rehabilitation (part)	1,000,000
Treated wooden poles 15,000 pcs. @ \$30	450,000

d. Fertilizer Plant

Extension Kachsiung Ammonium Sulphate Works	1,000,000
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Total

US\$ 4,912,000

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The End

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AMCONSUL,

TAIPEI, TAIWAN.

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PER ROAKEY OFFICE FEA

FADRC FOI CASE NO. 735805 Probst

statement

FOLLOWING is text President's statement of January 5:

QUOTE The United States Government has always stood for good faith in international relations. Traditional United States policy toward China, as exemplified in the Open Door policy, called for international respect for the territorial integrity of China. This principle was recently reaffirmed in the UN General Assembly resolution of December 8, 1949, which, in part, calls on all states

To refrain from (a) seeking to acquire spheres of influence or to create foreign controlled regimes within the territory of China; (b) seeking to obtain special rights or privileges within the territory of China.

QUOTE A specific application of the foregoing principles is seen in the present situation with respect to Formosa. In the Joint Declaration at Cairo on December 1, 1943, the President of the United States, the British Prime Minister and the President of China stated that it was their purpose that territories Japan had stolen from China, such as INNER QUOTE Formosa END INNER

QUOTE, should be restored to the Republic of China. The United States

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States was a signatory to the Potsdam Declaration of July 26, 1945, which declared that the terms of the Cairo Declaration should be carried out. The provisions of this Declaration were accepted by Japan at the time of its surrender. In keeping with these declarations, Formosa was surrendered to Generalissimo Chiang Kai-Shek and for the past four years the United States and the other Allied Powers have accepted the exercise of Chinese authority over the Island.

QUOTE The United States has no predatory designs on Formosa or on any other Chinese territory. The United States has no desire to obtain special rights or privileges or to establish military bases on Formosa at this time. Nor does it have any intention of utilizing its armed forces to interfere in the present situation. The United States Government will not pursue a course which will lead to involvement in the civil conflict in China.

QUOTE Similarly, the United States Government will not provide military aid or advice to Chinese forces on Formosa. In the view of the United States Government, the resources on Formosa are adequate to enable them to obtain the items which they might consider necessary for the defense of the Island.

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The United States Government proposes to continue under exist-
ing legislative authority the present ECA program of economic
assistance UNQUOTE.

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(FF)

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F770009-0017

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: January 5, 1950

SUBJECT: Formosa Problem

PARTICIPANTS: Senator William F. Knowland
Senator Alexander H. Smith
The Secretary of State
Mr. Jack K. McFall

COPIES TO: S/S - Mr. Battle ✓
G - Mr. Rusk
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Senator Knowland and Senator Smith called at my office this morning and we discussed the Formosa issue for about an hour and a half.

I opened the conversation by stating that I felt it proper to review briefly the general considerations entering into the Formosa problem. First I called attention to the fact that, to all intents and purposes, all of continental China was now to be written off as there did not appear any possibility of further effective military resistance to the Communist regime on the mainland. I called attention to the fact that I had had repeated conferences with the British, designed to point up to them the desirability of maintaining a non-recognition policy of Communist China but that in spite of those representations the British had decided their interests lie in the direction of recognition. Consequently I felt that the statements I was to make should be placed in the framework of the realization of the fact that Burma, India, Great Britain, New Zealand, Australia, Canada, and doubtless a large number of other nations would be recognizing the Communist regime before the passage of any considerable period of time. I made it clear that our standing in the eyes of the Chinese at the moment had reached a nadir which was somewhat comparable to the same state of degradation in which the Russians were held some 21 years ago. I pointed out to all intents and purposes Manchuria and outer Mongolia were firmly under Russian control, achieved as the result of a long-time design, and that inner Mongolia was also under a less severe measure of control. I stated, however, that as far as the rest of China was concerned Russian control was such had in no way been consolidated and that I felt the Soviets were going to encounter increasing difficulties by way of their program of subjugation. I then stated reasons for this view were amplified.

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I then briefly reviewed country by country the present situation in Burma, Malaya, Siam, Indo-China and Indonesia, indicating that with the exception of Burma, there are encouraging signs of varying degree on the horizon in each of these areas.

I next reviewed the history of the Formosan question, pointing out that Formosa was essentially a Chinese territory, the control of which was interrupted by the Japanese for a period of some 40 years and that in recognition of this inherent right of ownership of the island by China both the Cairo and Potsdam Declarations reaffirmed such right. I pointed out that if one wanted to be legalistic it could be argued that in sheer legality Formosa would not be a part and parcel of China until a stipulation to that effect had been made in the Japanese Peace Treaty. In further elaboration of this point I said that legal arguments of somewhat kindred nature with only a difference in party in interest could be made as regards the Mandated Islands in the Pacific, the Kuriles, and Korea; but for my part I preferred to deal with the sheer realities of the situation in each one of these cases, namely, that it makes little difference what might be done by way of formal documents, the fact remains that all of these areas fall in the same category as far as their administration and control are concerned by having had their fate morally sealed by some form of prior agreement. I then stated that if we accept the thesis that to all practical purposes Formosa historically has been a part of China—that is part of China today and must in all morality continue to be a part of China—we are next confronted with the situation as to what, if anything, is to be done about the existing situation. In essence, I replied to my own question by stating that as I view the picture we are confronted with the necessity of making a choice that ultimately would lead us to adopting one of two alternative courses of action: We can take the position either that we will fight, if need be, the retention of the island under our aegis, or in the absence of such a position we must be prepared to accept what now appears to be the real possibility of its collapse.

As regards the first alternative, I stated I did not believe it was in the interest of the American people to hazard a war over Formosa; and secondly, that the mere statement of our intention to so hold the island would be completely defeative of the general line we had been taking and the philosophy we had been preaching of self-determination of all countries and areas in Asia. I emphasized my strong feeling that such a move would play right into the hands of Russian propaganda which could exploit to the fullest the point that such actions give the lie to our protestations of an absence of any imperialistic design in our motives. I reiterated that we simply cannot afford, by overt moves on our part, to place ourselves in a position where we would have difficulty in answering the charge that we were moving in the same orbit of imperialistic design that Russia is following today. I remarked that in my opinion any such move on our part would be greeted by all of the other countries in that area with whom we are trying to work in instilling ideas of responsible government with a sense of revulsion and with an attitude that our deeds were belying our words. I then stated that it would be possible for us to take this view, of course, only if the area in question were one that our highest

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military authority had deemed to be not of vital importance to the security of the United States. Following this up, I made the statement that the Joint Chiefs of Staff had made such a definition and that while I acknowledged that the highest military authorities would look with considerable concern should a foreign power occupy Formosa, nonetheless the retention of Formosa has been defined to be not of vital importance to our security.

Senator Smith mentioned at this point that he had spoken to Ambassador Stuart just before his heart attack and the Ambassador had indicated he felt that we must devise some means to prevent Formosa from falling into Communist hands. The Senator followed this observation with a statement that he wondered why the advice of men on the spot like General MacArthur and Admiral Radford, both of whom had expressed to him very strong feelings that under no contingency should we permit Formosa to fall into Communist hands, had not been taken into account. I replied to this observation with the statement that there were always differences of opinion among military personnel as to the strategic importance of practically any place which one could select in the world and therefore it was necessary in such matters to accept the considered judgment of the Joint Chiefs of Staff who were charged with the responsibility of resolving our military potentials and strategy in terms of a worldwide outlook.

At this point I proceeded to develop the strategic aspects of Formosa, pointing out that it was only 40 miles nearer to Okinawa than the mainland of China and only 160 miles nearer to the Philippines than the China mainland—both of them distances that have no significance in terms of airpower today. Next I called attention to the military and financial resources which the Nationalist government has on hand today to meet the threat of any possible invasion from the mainland. I averted to the fact that the population of Formosa is about 6½ million, to which a million individuals have been added in the form of the large Nationalist Army, plus a 100,000-man airforce and a 30,000-man Navy, not to mention about 700,000 refugees from the mainland. I stated I felt China had sufficient financial resources to buy whatever military equipment and replacement material might be needed to meet any threat of invasion which might come from the Communist forces on the mainland, provided that the political situation in Formosa did not decay to a point where the invasion could be successful because of the sheer inability of the Nationalist government to make its men fight and prevent defections of both men and matériel of the Air Force and Navy. I reaffirmed my position that we should continue to supply the needs of the island for fertilizer and to carry on the rural rehabilitation program, but that anything further than that by way of increased military assistance or military advice is regarded as unnecessary on our part and would be defeative of the principles of non-intervention which we had been endeavoring to espouse.

Senator Knowland at this point called attention to the fact that all PCA aid other than the fertilizer and rural rehabilitation programs had been stopped; that the funds available for a reconstruction program had been frozen and that he felt strongly this was a mistake. Senator Knowland also stated he could not share my view that the situation internally in Formosa was nearly as bad as he inferred from my remarks and that to the contrary he left the island with the impression that there was quite a high state of morale among the armed services as well as the Formosans, and that if we would give a proper

measure

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measure of both military and economic aid the situation could be saved. Senator Knowland was particularly critical of my statement that I considered the 100 million or 150 million dollars left in the financial coffers to be sufficient to meet their needs, saying he felt it was essential for the Nationalist government to retain those funds as a backing for their currency and that he was unable to understand why we would continue to aid England to build up her reserves when apparently we took the view that it was not necessary for Formosa to have any financial reserves at all.

Following this phase of the discussion I took occasion to read from a memorandum all of the military equipment and ammunition that had been sent to Formosa during the past calendar year from the U.S. as well as from other sources. Senator Knowland stated that in his opinion the Nationalist armies were not adequately armed on either Formosa or Hainan as his investigation disclosed that much of the ammunition and a good proportion of the guns were of ten or twelve years of age and of a vintage that we would have disposed of for our own purposes five years ago. I countered this statement with the observation that they would probably have the same kind of ammunition that the Communists would have in the event they would endeavor to invade the island.

At this point Senator Smith interjected the remark that he did not understand why the State Department had forbidden him and Senator Ferguson to go to Formosa. I stated I had looked into the charges that the State Department had frustrated Senator Ferguson's movement into Formosa and that the Department had had absolutely nothing to do with the matter at all; that his failure to reach Formosa was due rather to his inability to secure proper plane transportation to take him there. Senator Smith then stated he had seen the wire himself which counseled him not to proceed to Formosa. I thereupon told Senator Smith I would look into it immediately as it was certainly done without my knowledge.

In conclusion, I stated it was my view that inasmuch as Formosa was not of vital importance from a strategic standpoint, the United States had much more to lose than to gain if we were to take any military action, or adopt a policy of military assistance that would lead to military involvement, designed at holding Formosa, and that distasteful as the possibility was that the island might well be occupied by the Communists at some time in the future, we must concede the possibility and not compromise our entire position in the Near East by doing deeds that would give the lie to our words.

I next suggested that it would be well to clarify the situation on the publication of the confidential inter-Departmental paper on Formosa. I emphasized that this paper was just one of hundreds of similar papers constantly being issued with the design of giving government employees holding responsibility for explaining world and air developments and happenings a proper line of comment and explanation in the context of our foreign policy and national interest if and when any such developments and happenings occur. If, therefore, the contents of the paper were to be viewed fairly in terms of its purpose and design, I stated that I could not view the directions given

therein

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therein to be in any way ~~damaging to us~~ but rather that it was sensibly contrived to protect our world prestige should the possible eventuality of the fall of Formosa become a reality.

Senator Knowland thereupon quoted several excerpts from the paper and stated that he was amazed at the "spirit of defeatism" contained in the passages and that in his opinion it showed that the Department was taking an indefensible attitude on this issue and was endeavoring to encourage others to take and propagate the same view. I firmly disavowed this interpretation by stating that the Senator was reading the passages entirely out of context and reaffirmed my previous statement that proper management and stewardship required us to keep responsible government officials informed proper "slants" for them to take in the interest of securing a press reaction that would explain developments to the world in a fashion that would serve a maximum advantage to our world position and prestige. I repeated that the direction given was on an "as, if and when" basis and was not intended to encourage any propaganda efforts before the fact on the part of anyone. As an example, I cited the fact that we had prepared a paper of similar nature at the time of the recent Philippine elections, pointing out the nature of the position that should be taken by responsible government officials in commenting on the election of the Philippine President. The paper was prepared in such a way as to give them a proper course of action to follow in meeting any of the three possible election results that would flow from the selection of any one of the three presidential candidates. Neither Senator Knowland nor Senator Smith made any request of me to look at the paper.

At this point Senator Knowland stated that in all respect to me he must reiterate that he felt the State Department was pursuing a policy of grave danger to the American people and that he considered the issue to be one of paramount importance. He said he felt it his conscientious duty to endeavor to acquaint the American people with what he regarded to be a fatal policy I was espousing which we would live to rue and regret.

Senator Smith concluded the observation by stating he was disappointed that no opportunity was afforded for any consultation on this matter, as disclosed by the fact the President was in the act of issuing a policy on Formosa without either him or Senator Knowland having been consulted before the policy was given to the public. Senator Smith stated he felt there was a real possibility that this action might affect his future attitude of support of a bipartisan foreign policy.

Courteous but restrained goodbyes were offered by those present.

H:JKMcFall:br

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